

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Investigation into the Natural Gas Procurement  
Practices of the Southwest Gas Corporation.

FILED  
PUBLIC UTILITIES COMMISSION  
JUNE 28, 2001  
SAN FRANCISCO, CALIFORNIA  
INVESTIGATION 01-06-047

**ORDER INSTITUTING INVESTIGATION**

**Summary**

By this Order, we initiate an investigation into the reasonableness of Southwest Gas Corporation's (SW Gas) natural gas procurement practices. We order SW Gas to provide us with information related to its gas procurement costs and practices from June 1, 1999 through May 31, 2001, and related to measures it has taken to minimize gas costs beyond May 31, 2001.

**Background**

Over the last year-and-a-half, natural gas prices across the country have risen to unprecedented levels, and the price of gas at the southern California border has been at times the highest in the country. The price of gas in the southwest producing basins, and the price at the southern California border have been widely divergent. This price difference has been far higher than the cost of firm interstate pipeline transportation from the producing basins to California. Natural gas buyers, who did not hold firm interstate pipeline capacity rights, and were forced to buy gas from sellers at the southern California border, were hit particularly hard by these excessive gas costs.

The gas procurement rates being charged by the regulated gas utilities in California have correspondingly increased to very high levels, particularly during the winter of 2000-2001. Gas prices hit their highest levels during the winter, at times spiking to nearly thirty times the price just over a year ago. This occurred when gas usage by core customers reached its highest level during the year.

While the gas procurement rates for all of the regulated gas utilities in California have increased, we have received an unusually high number of complaint letters from the customers of SW Gas, particularly from its Southern Division.<sup>1</sup> Commissioner Wood attended a public meeting in Victorville, and heard many of these complaints directly from ratepayers there. We have received a petition from the citizens of Victorville with over 20,000 signatures, expressing their complaints and even outrage over the high natural gas rates being charged by SW Gas.

Prior to December 2000, the gas procurement rates for SW Gas' Southern division had been set at \$2.21/Dth since December 1997. In October 2000, SW Gas requested permission to change its gas procurement rates on a monthly basis to more accurately reflect its current costs of gas, just as other California gas utilities do. The Energy Division reviewed this request and approved it on November 1, 2000. On December 1, 2000, SW Gas increased its procurement rates for its southern division to \$8.62/Dth, an increase of nearly 300%. In

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<sup>1</sup> SW Gas operates in two divisions in California, the Northern and Southern divisions. In the Northern Division, SW Gas serves about 18,000 customers near Truckee and Lake Tahoe. In the Southern Division, SW Gas serves about 105,000 customers in San Bernardino County.

January, February, and March 2001, the procurement rates jumped again to \$12.96/Dth, \$15.76/Dth, and \$15.76/Dth, respectively. Needless to say, these gas procurement rates have had a dramatic effect on SW Gas' customer's bills, especially since they occurred during the winter, when core gas usage was high. Fortunately, SW Gas' procurement rate has begun to come down in recent months.

The Commission employs gas cost incentive mechanisms to regulate the procurement practices of the three largest gas utilities in California, Pacific Gas and Electric Company (PG&E), Southern California Gas Company (SoCalGas), and San Diego Gas & Electric Company (SDG&E). These mechanisms have been in place for many years (since 1997 for PG&E, since 1994 for SoCalGas, and since 1993 for SDG&E). However, the Commission has not adopted a gas cost incentive mechanism for SW Gas. In addition, the Commission has not conducted a detailed reasonableness review of SW Gas' procurement practices in the past, and has only loosely monitored these practices. Over the winter of 2000-2001, SW Gas' procurement rates increased to an even greater degree than the rates for PG&E, SoCalGas, or SDG&E.<sup>2</sup>

## **Discussion**

It is not surprising that SW Gas' cost of gas has increased over the past year. Each of the regulated California gas utilities experienced unprecedented increases in their gas costs and procurement rates during the past winter. However, the degree to which SW Gas' rates increased since November 2000

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<sup>2</sup> In fact, as of April 30, 2001, SW Gas still had a substantial undercollection in its purchased gas account. This means that SW Gas' procurement rates had not collected all of their gas costs as April 30, 2001.

surpassed each of the three largest gas utilities. In addition, the Commission has not conducted a review of the reasonableness of SW Gas' cost of gas, reviews which had been traditionally been conducted on an annual basis in the early 1990's for each of the three largest gas utilities in the state. Finally, SW Gas does not now operate under a gas cost incentive mechanism, as do the three largest gas utilities. We have a responsibility to ensure that SW Gas is purchasing gas for its customers in a reasonable manner, and that its management has taken steps to minimize the cost of gas for its customers, who are overwhelmingly core customers.

Since SW Gas does not have an established reasonableness review schedule, or a gas cost incentive mechanism, we are issuing this Order Instituting Investigation (OII) into SW Gas' procurement costs and purchasing practices from June 1, 1999 through May 31, 2001.<sup>3</sup> We will also be examining the steps SW Gas has taken to minimize gas costs for the future. Although SW Gas' costs seem to have risen most precipitously in its Southern Division, we will also be examining gas costs for the Northern Division.

SW Gas should provide a detailed report on its gas procurement costs and practices<sup>4</sup> from June 1, 1999 to May 31, 2001, and on measures taken by its

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<sup>3</sup> We expect that SW Gas will be filing a General Rate Case (GRC) application in December 2001, for a 2003 Test Year. While we could wait until the GRC proceeding to examine SW Gas' procurement costs, we prefer not to wait for another six or seven months to get this investigation under way.

<sup>4</sup> Besides commodity gas costs, "gas procurement costs and practices" should be taken to also include interstate transportation costs and practices related to the management of those costs.

management to minimize gas procurement costs beyond May 31, 2001. The report should:

- 1) thoroughly explain SW Gas' procurement practices during the period in question;
- 2) provide detailed data on SW Gas' procurement costs;
- 3) explain why SW Gas' procurement costs increased so dramatically;
- 4) explain why its procurement rates have been higher than the three largest gas utilities in the state; and
- 5) explain what measures SW Gas has taken to minimize gas costs during the period in question, and beyond May 31, 2001.

We will serve this OII on the service list in SW Gas' last General Rate Case, A.94-01-021, and on the service lists in the SW Gas proceedings for a Certificate of Public Convenience and Necessity, A.93-12-042 and A.97-07-015. We will also order SW Gas to work with the Public Advisor to provide a bill insert to notify its customers of this OII.

### **Preliminary Scoping Memo**

The scope of this proceeding shall include all issues raised in this order, but will not be limited to these issues. Any party may suggest related issues for the Commission's consideration.

The Commission's Rules of Practice and Procedure (Rules) are posted on the Commission's website. Pursuant to Rule 4(a) the rules in Article 2.5 shall apply to this proceeding. This investigation is categorized as a ratesetting proceeding and is expected to require a hearing. This categorization is appealable under the procedures set forth in Rule 6.4. Any person who objects to the categorization of this investigation must file an appeal no later than ten days after the date of this OII, pursuant to Rule 6.4(a).

By ruling, the assigned Commissioner and Administrative Law Judge shall convene a prehearing conference (PHC) to develop a service list for this proceeding and to further delineate issues related to scope and schedule for this proceeding. We anticipate holding hearings, if needed, later this summer and tentatively expect to issue a final decision before the end of the year.

The temporary service list is attached to this order and shall be used for service until a service list for this proceeding is established at the PHC. Persons who want to become a “party” to this proceeding shall appear at the PHC, or at the formal hearing, and fill out the “Notice of Party/Non-Party Status” form (appearance form).

Those persons who do not want to be parties, and only want notice of the hearings, rulings, proposed decisions, and decisions may either appear at the PHC or the formal hearing and fill out an appearance form, or mail a written request to the Process Office to be added to the service list for information only.

Those persons employed by the State of California who are interested in this proceeding may be added to the “state service” section of the service list either by appearing at the prehearing conference or at the formal hearing and filling out an appearance form, or they may mail a written request to the Process Office requesting that they be added to the state service list. All of the names appearing on the state service list shall be served with all documents that parties may submit or file in connection with this proceeding.

The Process Office shall develop an initial service list based on the appearances at the first PHC. This initial service list shall be posted on the Commission’s website, [www.cpuc.ca.gov](http://www.cpuc.ca.gov), as soon as it is practicable.

Any party interested in participating in this investigation that is unfamiliar with the Commission’s procedures should contact the Commission’s Public

Advisor Office in Los Angeles at (213) 649-4782, or in San Francisco at (415) 703-2074.

Consistent with Rule 6(e), we expect this proceeding to be concluded within 18 months.

### **Ex Parte Communications**

This proceeding is subject to Rule 7(c) of the Commission's Rules of Practice and Procedure. In addition to placing specific requirements on ex parte communications, Rule 7(c) also requires parties to report ex parte communications pursuant to Rule 7.1.

#### **IT IS ORDERED** that:

1. An investigation is instituted into the reasonableness of Southwest Gas Corporation's (SW Gas) gas procurement costs and practices from June 1, 1999 through May 31, 2001, and into measures SW Gas' management has taken to minimize gas costs beyond May 31, 2001.
2. SW Gas is the respondent to this proceeding.
3. SW Gas shall retain all documents within its possession or under its control, which pertain to natural gas procurement.
4. No later than 20 days after the effective date of this order, SW Gas shall provide a detailed report on its gas procurement costs and practices from June 1, 1999 to May 31, 2001, and on measures taken by its management to minimize gas procurement costs beyond May 31, 2001. Other parties may file and serve comments on the response no later than ten days after the response is filed.
5. The Executive Director shall cause this Order Instituting Investigation to be served on the respondents and on the service lists in SW Gas A.93-12-042, A.94-01-021, and A.97-07-015.

6. In consultation with the Public Advisor, SW Gas shall provide notice of this investigation to its customers by a billing insert in customers' next monthly bills.

7. The temporary service list is attached and shall be used for service of all pleadings until a service list for this proceeding is established. An initial service list for this proceeding shall be created by the Process Office and posted on the Commission's website ([www.cpuc.ca.gov](http://www.cpuc.ca.gov)) as soon as it is practicable after the first prehearing conference. Parties may also obtain the service list by contacting the Commission's Process Office at (415) 703-2021.

8. The category of the investigation is determined to be Ratesetting as that term is defined in Rule 5(c) of the Commission's Rules of Practice and Procedure.

9. Persons interested in this proceeding shall follow the procedures described in this investigation to get on the service list.

This order is effective today.

Dated June 28, 2001, at San Francisco, California.

LORETTA M. LYNCH  
President  
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RICHARD A. BILAS  
CARL W. WOOD  
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A9312042 LIST  
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